

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING
(PROPOSAL TWO)

Docket No. RM2016-10

PETITION OF THE UNITED STATES POSTAL SERVICE FOR THE
INITIATION OF A PROCEEDING TO CONSIDER PROPOSED CHANGES
IN ANALYTICAL PRINCIPLES (PROPOSAL TWO)
(August 22, 2016)

Pursuant to 39 C.F.R. § 3050.11, the Postal Service requests that the Commission initiate a rulemaking proceeding to consider a proposal to change analytical principles relating to the Postal Service's periodic reports. The proposal, relating to the treatment of carrier costs within the ICRA Report, is labeled Proposal Two and is discussed in detail in the attached text. Supporting material is filed under seal in nonpublic folder USPS-RM2016-10/NP1.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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A Proposed Change for Distribution of International Delivery Costs

OBJECTIVE:

The Postal Service proposes to revise the method for distributing city carrier-street and rural carrier costs to products in the International Cost and Revenue Analysis (ICRA) report. This change would align the ICRA methodology with the Cost and Revenue Analysis (CRA) methodology used for developing delivery costs. For city carrier-street costs, the proposed synchronization of the methods will be discussed separately for three elements of the city carrier street model 1) letter routes, 2) special purpose routes, and 3) support and other costs. For rural delivery, the distribution keys for Accountables, Parcels Accepted, and Carrier Pickup would be aligned with the CRA.

BACKGROUND:

City Letter Routes

Beginning in FY 2015, city carrier letter route street costs are developed using separate cost pools for DPS, Cased Mail, FSS, Customer Collections, General Collections, In-Receptacle Parcels, Deviation Parcels, and Accountables.¹ The costs are then distributed to products based on proportions from the City Carrier Cost System (CCCS).

The current methodology for the ICRA aggregates the separate letter route and Special Purpose Route (SPR) delivery cost pools and distributes costs to inbound

¹ The specific cost pools are defined in the letter route methodology filed with Docket No. RM2015-7, Proposal 13 and accepted in Order No. 2792 (October 29, 2015).

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products based on total letter route delivered volume from CCCS.² The customer and general collection costs are distributed to outbound international products based on Revenue Pieces and Weight (RPW) proportions for the relevant international products.

City Carrier Special Purpose Routes (SPR)

The CRA develops SPR delivery costs using separate cost pools for SPR Load Non-Accountable Delivery, SPR Load Accountable Delivery, SPR Deliveries Time at Stop, and SPR Deliveries Access. The costs are then distributed to products based on proportions from CCCS-SPR. As discussed above, the ICRA aggregates letter route and SPR delivery costs into one cost pool and then distributes those costs to inbound products based on a composite CCCS volume distribution key across all cost pools. In the CRA, SPR collection costs are distributed based on proportions from CCCS. In the ICRA, however, SPR collection costs are distributed based on relevant RPW proportions.

City Carrier Support and Other Costs

The CRA distributes letter route and SPR support costs based on their respective direct labor distributions. The CRA also develops distribution keys 578 and 579, which are the sum of all SPR and letter route costs, respectively. These distribution keys are inputs into the CRA model, ACR folders 31 and NP13.³

The ICRA distributes support costs proportionally based on the aggregate of all letter route and SPR costs. Distribution keys 578 and 579 are the total of SPR and

² City Carrier Cost System has two components. CCCS estimates volumes delivered by letter route carriers and CCCS-SPR estimates volumes delivered by special purpose route carriers.

³ Distribution keys 578 and 579 are used to distribute SPR and letter route vehicle costs in cost segments 12.1 MVS Labor, 12.2 MVS Supplies and Services, and 20.2 Vehicle Depreciation.

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letter route costs, respectively, and both are distributed on the sum of all international SPR and letter route costs. Distribution keys 578 and 579 are an input into the International Domestic Processing Model, ACR folder NP4.

Rural Carrier Distribution Keys

The CRA distribution key for Accountables consists of those mail pieces that require signature. This includes Certified, Insurance, Registry, and Signature Confirmation. For International, this includes Foreign Origin Registry and those classes where obtaining a signature is a feature of the mail class. The ICRA distribution key for Accountables distributes all pieces to the base mail class. This means that pieces with Foreign Origin Registry are included in Surface and Air LC/AO.

The CRA distribution key for rural Carrier Pickup includes the allowable items for Carrier Pickup⁴ and any other pre-paid parcels greater than two pounds that are accepted by the carrier. This is consistent with the Rural Mail Count, which includes pre-paid parcels greater than two pounds with Carrier Pickup items. The ICRA includes only Carrier Pickup items in the Carrier Pickup distribution key. Pre-paid parcels greater than two pounds are in the Parcels Accepted distribution key, along with parcels that the carrier has to weigh, rate and affix postage.

⁴ Allowable items for Carrier-Pickup include domestic Priority Mail Express, Priority Mail, First-Class Package Service, Bulk Parcel Return Service, Merchandise Return Service, and Parcel Return Service. For International, allowable items are Global Express Guaranteed, Priority Mail Express International, Priority Mail International, and First-Class Package International Service.

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PROPOSAL:

This section outlines the proposal separately for the three city carrier elements and the one rural carrier element identified in the preceding section.

City Carrier Letter Routes

This proposal would align the ICRA methods with the CRA for letter routes. Specifically, it would form separate letter route cost pools for Cased Mail, DPS, FSS, Customer Collections, General Collections, In-Receptacle Parcels, Deviation Parcels, and Accountables, and distribute costs based on CCCS proportions with the required detail for international products in each cost pool.

The synchronization of ICRA treatment with CRA treatment of Accountable costs would associate the costs caused by an extra service with the additional revenue received for that extra service. Thus, the Accountables distribution key would follow the same treatment as domestic Registry and include only the Registered costs caused by the Registered revenue, exclusive of LC/AO terminal dues revenue. Similarly, the Accountables distribution key would also contain volumes for international classes where obtaining a signature is a feature of the class, such as Foreign Origin Air CP, Surface CP, and International Express Mail Service.

City Carrier Special Purpose Routes

This proposal would align the ICRA methods with the CRA for SPR. Specifically, it would form separate non-collection SPR cost pools for SPR Load Non-Accountable Delivery, SPR Load Accountable Delivery, SPR Deliveries Time at Stop, and SPR Delivery Access. The costs would be distributed based on proportions with the required

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international detail from CCCS-SPR. For collection costs, this proposal would distribute the collection cost pool based on proportions from CCCS.

City Carrier Support Costs and Other Outputs

The proposal would distribute supports costs in accordance with the method used in the CRA. Specifically, letter route and SPR support costs would be distributed based on their respective direct costs. Likewise, the same method would be used for the portion of In-Office Support Other costs in component 604 that are distributed based on the respective street costs for letter routes and SPR.

Distribution keys 578 and 579 would consist of the sum of SPR direct costs and letter route direct costs, respectively.

Rural Carrier Distribution Keys

Synchronization of ICRA treatment with CRA treatment of accountable costs associates the costs caused by an extra service with the additional revenue received for that extra service. Thus, the Accountables distribution key would follow the same treatment as domestic Registered and include the costs caused by the Registered revenue, exclusive of LC/AO terminal dues revenue. Similarly, the Accountables distribution key would also contain volumes for international classes where obtaining a signature is a feature of the class, such as Foreign Origin Air CP, Surface CP, and International Express Mail Service.

The Carrier Pickup and Parcels Accepted distribution keys would be adjusted by moving prepaid parcels greater than two pounds from the Parcels Accepted distribution key to the Carrier Pickup distribution key.

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MECHANICS:

Mechanically, these method changes would be implemented in ACR folder NP4, ICRA Domestic Processing Model. For city carriers, worksheet 7.0.1.1 would no longer be used. The CCCS and CCCS-SPR international distribution keys by cost pool would appear on new worksheet 7.0.8. The cost pool totals would come from the corresponding international cost pool amounts in the CS06&7 workbooks filed in ACR folders 32 and NP14. The distribution for the cost pools would be shown on worksheets 7.0.6 for SPR and Letter Route General Collections cost pools, and on 7.0.6.5 for Letter Route Delivery Sections and Parcel/Accountable cost pools.

The distribution of Delivery Activities Support and In-Office Support on city carrier street costs would be calculated on worksheet 7.0.6. The distribution of these support components would be based on the sum of the respective direct costs across the letter route and SPR Delivery Activities cost pools.

The sum of the direct letter route and direct SPR cost pools would also be used to form distribution keys 579 and 578, respectively.

The rural carrier Accountables distribution key is shown on worksheets 10.1.2 and 10.2.2. The adjustments to the Parcels Accepted and Carrier-Pickup distribution keys would be implemented on the Inputs worksheet, and shown on worksheets 10.1.2 and 10.2.2.

Changes in other ACR folders would not be required for this proposal.

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RATIONALE:

This proposal is intended to align the ICRA cost model for city carrier street costs with the CRA by distributing international costs within each cost pool using CCCS volumes. This proposal would also improve the accuracy in letter route international product costs by distributing costs for each city street cost pool using cost pool specific distribution keys, rather than the current method of distributing costs based on an aggregate volume key across all shapes. In addition, this Proposal improves the ICRA treatment of SPR costs, by distributing delivery costs based on distribution keys from CCCS-SPR and by distributing collection costs based on the general collection distribution key from CCCS. The treatment for support costs and for other distribution keys used in ACR folder NP4 would also be aligned with the CRA. Finally, this Proposal would align the rural carrier Accountables, Parcels Accepted, and Carrier Pickup distribution keys with the CRA. In sum, this proposal would align the city and rural carrier costing methodology for the ICRA with the CRA, resulting in improved accuracy of international cost estimates.

IMPACT:

The differences that arise from the necessary modifications discussed in the Mechanics section are presented in the non-public Excel file "Prop.Two.Impact.xls" filed under seal as part of USPS-RM2016-10/NP1. This file consists of three tabs: City Carrier Compare, Rural Carrier Compare and All Cost Segments. Each tab shows the absolute cost impacts and the unit cost impacts of the proposal.

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Overall, Outbound mail categories are less impacted by the proposal than Inbound categories. Outbound categories have fewer associated delivery costs than Inbound because delivery occurs out of the country. Inbound mail categories, on the other hand, receive the complete spectrum of delivery activities included in this proposal. As such, the greater impact on Inbound mail categories is to be expected.

Inbound Registered warrants a separate note as the most impacted single category. In the past, no delivery costs were attributed to Inbound Registered and aligning the ICRA methodology with the CRA methodology resulted in attributing delivery costs to Inbound Registered. The impact of the proposal thus also includes a correction for this previous error.